

KEEPING UP WITH CONSUMERS:  
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ÉVOLUER AU MÊME RYTHME QUE LES CONSOMMATEURS :  
COMPRENDRE LES EFFETS D'UN ENVIRONNEMENT EN ÉVOLUTION SUR LES POLITIQUES

**Exchange Rate Pass-Throughs for Fresh and Processed Products**

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Many consumers have noticed significant price differences for similar goods sold on both sides of the Canada-US border, even when tariffs are low or inexistent. These price differences are persistent and robust to exchange rate variations. A low exchange rate pass-through (ERPT) implies that exporters will not reduce their price (expressed in their currency) by much when their currency appreciates. Factors explaining this sort of anticompetitive behavior have been extensively studied. Our study innovates by accounting for the fact that fresh products can be given an extended life through processing. The lower perishability of processed products provides flexibility to exporters and this in turn impacts on how prices for fresh and processed products adjust to exchange rate variations. When consumers have strong preference for the fresh product and that exporters anticipate a depreciation of their currency, prices for the fresh and processed products paid by consumers fall and this fall is proportional to the degree of perishability. When consumers have a strong preference for the processed product, a depreciation also induces price reductions, but these reductions are proportional to the life of the processed product in this instance. Contrary to Copeland and Kahn (2012), it is found that the ratio inventories/sales is not necessarily a good ERPT indicator. ERPTs for fresh and processed products are very low when the processed product has a long life and futures profits have a high present value. Finally, we derive conditions under which fresh product is more (or less) sensitive to exchange rate variations than the processed product. This has important implications for business risk management.